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C O N F I D E N T I A L STATE 191816

FOR: THE HONORABLE ARTHUR F. BURNS, CHAIRMAN
FEDERAL RESERVE BOARD, HOTEL INTERCONTINENTAL

DEALER DELIVERIES OF NEW COMESTIC-TYPE AUTOS IN THE SECOND TEN DAYS OF SEPTEMBER WERE AT A SEASONALLY ADJUSTED ANNUAL RATE OF 10.5 MILLION UNITS. FOR THE 20-DAY PERIOD, SALES WERE AT A 10.2 MILLION UNIT RATE, 5 PER CENT ABOVE THE AUGUST LEVEL AND 27 PER CENT ABOVE THE SAME PERIOD A YEAR AGO.

THE F.W. DODGE SEASONALLY ADJUSTED INDEX OF TOTAL VALUE OF CONSTRUCTION CONTRACTS INCREASED 16 PER CENT IN AUGUST, REFLECTING SUBSTANTIAL ADVANCES IN THE NONRESIDENTIAL AND NON-BUILDING CATEGORIES. THE RESIDENTIAL BUILDING INDEX DECLINED 1 PER CENT WHILE THE TOAL BUILDING INDEX ROSE 8 PER CENT.

THE SEASONALLY ADJUSTED FLOOR SPACE OF CONSTRUCTION CONTRACTS FOR COMMERCIAL AND INDUSTRIAL BUILDINGS, AT 96.22 MILLION SQUARE FEET, WAS 3 PER CENT LOWER IN AUGUST THAN IN JULY. FOR THE SEVENTH CONSECUTIVE MONTH THE VOLUME OF NEW MORTGAGE COMMITMENTS DECLINES AT INSURED SAVINGS AND LOAN ASSOCIATIONS, ACCORDING TO FEDERAL RESERVE ESTIMATES. THE SEASONALLY ADJUSTED RATE IN AUGUST WAS DOLS 2.0 BILLION COMPARED TO DOLS 2.7 BILLION IN JULY AND A HIGH OF DOLS 5.7 BILLION IN JANUARY. THE BACKLOG OF OUTSTANDING MORTGAGE COMMITMENTS WAS ALSO LOWER IN AUGUST, ACCORDING TO REPORTS FROM ALL S&L'S. SEASONALLY ADJUSTED
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OUTSTANDING COMMITMENTS, INCLUDING LOANS IN PROCESS, WERE DOLS 17.8 BILLION IN AUGUST COMPARED WITH DOLS 18.6 BILLION IN JULY

AND A PEAK OF DOLS 21.5 BILLION IN FEBRUARY.

CONTRACTS AND ORDERS FOR PLANT AND EQUIPMENT, A LEADING INDICATOR, DECLINED 3.1 PER CENT IN AUGUST TO DOLS 13.33 BILLION, SEASONALLY ADJUSTED. THE UPWARD REVISED JULY FIGURE OF DOLS 13.75 BILLION WAS THE HIGH FOR THR RECENT PERIOD.

HELP WANTED ADVERTISING, A COINCIDER, DECLINED 3.1 PER CENT IN AUGUST TO 127 FROM A RECENT HIGH OF 131 IN JULY.

THE INDEX OF NET BUEINESS FORMATION DECLINED .2 PER CENT IN JULY TO 118.7. THE HIGH THIS YEAR WAS 122.6 IN MARCH. LIABILITIES OF BUSINESS FAILURES, INVERTED, DECLINED 7.8 PER CENT IN AUGUST TO DOLS 190.15 MILLION (NOT SEASONALLY ADJUSTED). MOST DOMESTIC FINANCIAL MARKETS CONTINUED TO EVIDENCE A FIRM TONE TODAY. TREASURY BILL RATES DECLINED SOMEWHAT FURTHER, WITH THE 3-MONTH ISSUE CLOSING DOWN 8 BASIS POINTS AT 7.12 PER CENT. TREASURY BONDS PRICES WERE STEADY WHILE CORPORATES AND MUNICIPALS WERE FIRM WITH NEW ISSUES MOVING WELL. STOCK PRICES CONTINUED TO ADVANCE. THE DOW JONES INDUSTRIALS ROSE 9 POINTS TO A LEVEL OF 949.50, UP FROM A LOW OF ABOUT 852 ON AUGUST 22. FEDERAL FUNDS APPARENTLY TRADED MOSTLY IN A 10-3/4 TO 11 PER CENT RAGE, BUT THAT MARKET TIGHTENED CONSIDERABLY LATE ON THIS WEEKLY SETTLEMENT DAY DESPITE DOLS 700 MILLION OF SYSTEM REPURCHASE AGREEMENTS.

AS REPORTED, SAVINGS AND LOAN ASSOCIATIONS LOST DOLS 1.2 BILLION IN DEPOSITS DURING AUGUST, LESS THAN THE DOLS 1.5 BILLION OUTFLOW ESTIMATED EARLIER. DURING THE FIRST 10 DAYS OF SEPTEMBER, IT IS ESTIMATED THAT THE ASSOCIATIONS RECEIVED A SMALL INFLOW OF ABOUT DOLS 100 MILLION, AND EARLY REPORTS INDICATE THAT THESE INSTITUTIONS EXPERIENCED A RELATIVELY SMALL OUTFLOW DURING THE SECOND 10 DAYS OF THE MONTH. THE INTEREST CREDITING PERIOD AT THE END OF THIS MONTH AND THE EARLY OCTOBER REINVESTMENT PERIOD WILL BE OF CRITICAL IMPORTANCE TO THESE INSTITUTIONS.

FOLLOWING A DOLS 1.1 BILLION NET INCREASE IN ADVANCES DURING AUGUST, THE DAILY VOLUME OF NEW FHLB ADVANCES IN SEPTEMBER HAS TAPERED OFF, THOUGH STILL AT A HIGH LEVEL. AS OF SEPTEMBER 20,
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ADVANCES MADE DURING THE MONTH TOTALED APPROXPIMATELY DOLS 440 MILLION.

RECENTLY, THE FHLB BOARD ANNOUNCED A NEW DOLS 2.5 BILLION PROGRAM OF ADVANCES DESIGNED TO FOSTER CONTINUED S&L INVESTMENT IN THE RESIDENTIAL MORTGAGE MARKET. THE MONEY WILL BE ALLOCATED TO THE FHLB DISTRICT BANKS ON THE BASIS OF TOTAL ASSETS HELD BY S&L'S IN EACH DISTRICT AND THE RATE ON THESE ADVANCES WILL BE 8-1/2 PER CENT PLUS A COMMITMENT FEE OF 1/4 OF 1 PER CENT TO BE PAID AT THE TIME THE COMMITMENT IS MADE. THESE COMMITMENTS

MAY BE TAKEN DOWN FROM 6 MONTHS, AT THE EARLIEST, UP TO 1 YEAR,
AT THE LATEST, AFTER THE DATE OF THE COMMITMENT.

DATA FOR 15 LIFE INSURANCE COMPANIES WHICH ACCOUNT FOR 64 PER
CENT OF POLICY LOANS HELD BY U.S. LIFE INSURANCE COMPANIES REVEAL
A SURGE IN POLICY LOANS DURING AUGUST. A RECORD VOLUME OF
POLICY LOANS WAS MADE DURING THE MONTH, WITH GROSS LOANS MADE
UP NEARLY 50 PER CENT OVER JULY AND 25 PER CENT ABOVE THE
PREVIOUS RECORD MONTH OF JULY 1969. THE NET INCREASE IN POLICY
LOANS HELD, DOLS 224 MILLION, WAS ALSO A RECORD HIGH.

DURING THE FIRST 23 DAYS OF SEPTEMBER A SAMPLE OF 16 LARGE
NEW YORK CITY MUTUAL SAVINGS BANKS EXPERIENCED A NET DEPOSIT
LOSS, ADJUSTED FOR PASSBOOK LOANS, OF DOLS 70 MILLION, SLIGHTLY MORE
THAN THE DOLS 40 MILLION LOSS IN THE COMPARABLE PERIOD IN AUGUST.
FOREIGN EXCHANGE MARKETS WERE AGAIN QUIET. THE DOLLAR EASED
A BIT FOLLOWING THE RELEASE OF U.S. TRADE FIGURES FOR AUGUST
WHICH SHOWED A DOLS 17 MILLION DEFICIT, CENSUS BASIS. BY MID-
AFTERNOON, HOWEVER, THE DOLLAR HAD RECOVERED THIS LOSS AND WAS
QUOTED AT AROUND YESTERDAY AFTERNOON'S RATES AGAINST OTHER MAJOR
CURRENCIES. THE SYSTEM SOLD A SMALL AMOUNT OF MARKS JUST AFTER
THE RELEASE OF THE TRADE FIGURES. THE BUNDESBANK SOLD DOLS 4 MILLION.
THERE WAS NO INTRA-EUROPEAN INTERVENTION.

THE BANK OF JAPAN SOLD DOLS 11 MILLION.

EURO-DOLLAR RATES WERE GENERALLY SOMEWHAT HIGHER. THE THREE-
MONTH RATE WAS UP 1/16 TO 10-9/16 PER CENT. GOLD ROSE 75 CENTS
TO DOLS 102.50. RUSH

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